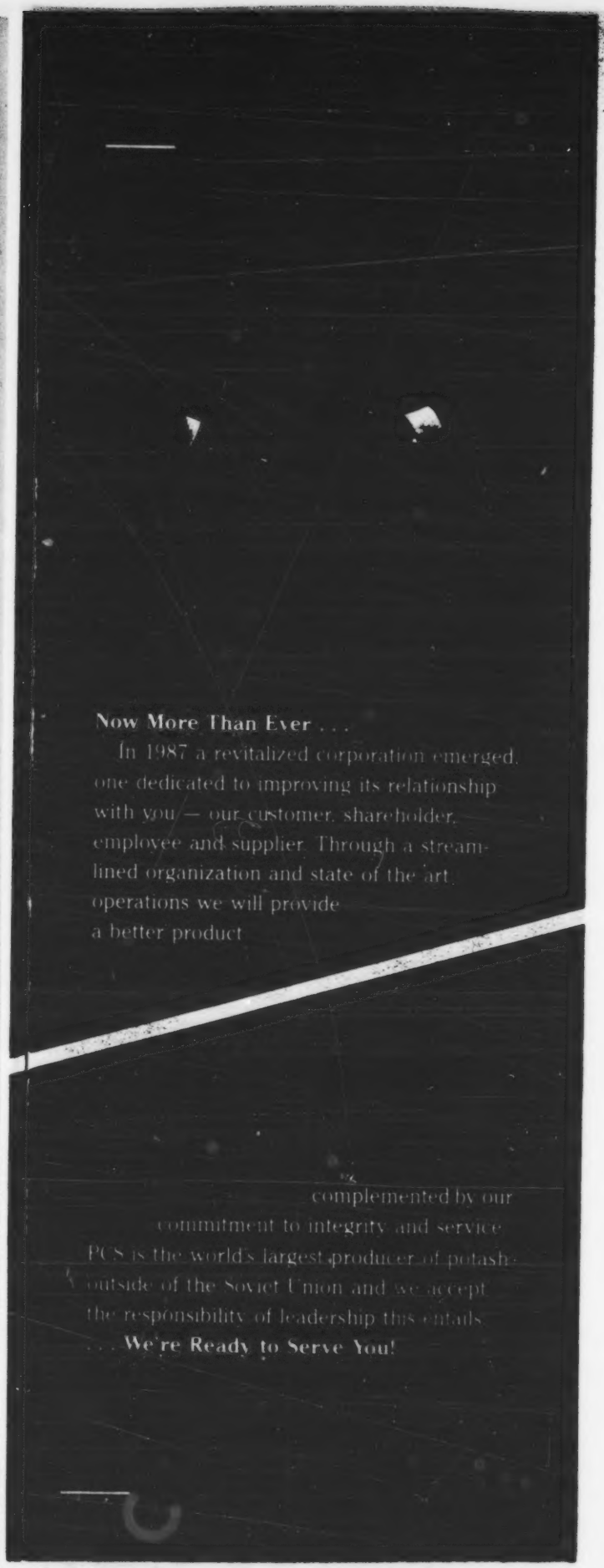
PARTS OF THE ORIGINAL DOCUMENT

ARE OF POOR REPRODUCTIVE QUALITY

CERTAINES PARTIES DU DOCUMENT ORIGINAL

SONT DE PIÈTRE QUALITÉ DE REPRODUCTION

Potash
Corporation of
Saskatchewan


Now More Than Ever . . .
In 1987 a revitalized corporation emerged,
one dedicated to improving its relationship
with you — our customer, shareholder,
employee and supplier. Through a stream-
lined organization and state of the art
operations we will provide
a better product
complemented by our
commitment to integrity and service.
PCS is the world's largest producer of potash
outside of the Soviet Union and we accept
the responsibility of leadership this entails.
. . . We're Ready to Serve You!

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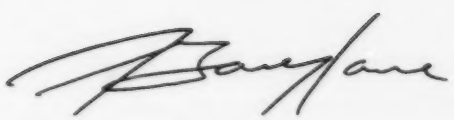
Letter of Transmittal

March, 1988
To His Honour,
The Honourable Frederick W. Johnson
Lieutenant Governor of the
Province of Saskatchewan

Sir:

I have the honour to submit the Annual Report of the Potash Corporation of Saskatchewan for the year ended December 31, 1987, including the financial statements in the form required by the Treasury Board and duly certified in accordance with The Potash Corporation of Saskatchewan Act.

I have the honour to be, Sir,
Your obedient servant



J. Gary Lane, Q.C.
Minister-in-Charge of the
Potash Corporation of Saskatchewan

Chairman's Message

The first quarter of 1987 was one of tremendous change for the Potash Corporation of Saskatchewan and its subsidiaries, PCS Mining and PCS Sales.

During 1986 the Corporation had suffered losses in excess of 100 million dollars and the financial projections were worse for the coming year. That outlook led to the making of some very tough decisions. Subsequently in March the Corporation underwent a major downsizing and a change in management.

Charles E. Childers was appointed President and Chief Executive Officer. He, along with a new management team, completed a reorganization and charted a new course for the Corporation in which PCS became a leader in the fertilizer industry.

Mr. Childers brings to the Corporation more than thirty years experience in the potash industry. He continues to participate in matters which directly affect the industry and the Corporation. Currently he serves as Vice-Chairman of the Potash & Phosphate Institute, as a director of The Fertilizer Institute and as a member of the Council of the International Fertilizer Industry Association.

The Corporation's Board of Directors met seven times during 1987 and their efforts are much appreciated. A new Board of Directors was appointed in January 1988 and on behalf of the Corporation I would like to welcome them and thank the retiring Board members for their time and contributions.

To the employees of PCS, PCS Mining and PCS Sales who have shouldered the burden of 1987, I extend my thanks and admiration. Your efforts have carried us through and placed us in a position where we can look to the future with confidence. Together we will continue to build a stronger, more productive and profitable Corporation.

PAUL SCHOENHALS
Chairman of the Board

Executive Management

(left to right)

Peter Braun	Director, Internal Audit
Bill Doyle	President, PCS Sales
Jim Bubnick	President, PCS Mining
Rick Lacroix	Vice President, Technical Services
John Gugulyn	Vice President, Corporate Affairs and Human Resources
Charles Childers	President and C.E.O.
Barry Humphreys	Vice President, Finance & Accounting
Keith Barton	Vice President, General Counsel and Secretary

President's Message

1987 was a dramatic year for PCS. The Corporation began the year in serious financial trouble. As the year progressed we were faced with multiple challenges. We endured and have emerged as a stronger company, looking to the future.

It was indeed a dramatic year for the potash industry in total. Producers entered the year with a supply-demand imbalance, high inventories, low prices, financial results in the red, and a threat of antidumping petitions. Caught in the web of a poor farm economy, potash was one part of the entire North American fertilizer business suffering along with all other agribusiness.

In the last few years, the United States farm policy has taken 75 million acres out of production, including many acres of corn and soybeans, the most essential crops for consumption of potash. Use of potash in the important U.S. market dropped to five milliion tons K_2O in 1986, a 10 percent reduction from 1985 and 20 percent less than in 1980 and 1981. The market did not return in 1987. In fact, corn acreage dropped to 66 million in 1987, from 77 million in 1986 and 84 million in 1980 and 1981. Soybean acreage was 59 million in 1987, compared with 62 million in 1986, and 70 million in 1981.

The year 1986 saw potash prices, when evaluated on a constant dollar basis, at an all-time low. Discounts, generous terms, and price protection were among the tools being used by producers to maintain market share in the important North American market. The industry appeared to be on the way to self-destruction.

In February, 1987, two United States potash producers filed an antidumping petition against all potash imported from Canada.

In April, the situation took a turn for the better. If 1987 were a pivotal year, April was the turning point. In the two preceding years, prices rose during the spring season, only to drop as the season came to an end, remaining low until the next spring season. In 1987 prices not only held, but increased after the spring season. Terms were reduced and many discounting procedures were terminated, as well as the practice of price protection. PCS Sales introduced two price increases this year which have held. It has been our intention to return a measure of stability to our market prices. We believe our customers want more predictable pricing along with a stability that has been absent in recent years.

On August 28, 1987, during the midst of the price recovery, the United States Department of Commerce announced its preliminary decision on dumping duties. All Canadian producers were found to be dumping with margins ranging from 9% to 85%. PCS had a preliminary margin of 51.9%. The uncertainty of this threat placed

Mr. Charles E. Childers
President and Chief Executive Officer,
Potash Corporation of Saskatchewan

a further strain on the market.

PCS was the leader in mobilizing support in the U.S. from the farm community and from U.S. political leaders against the antidumping petition. The support provided by our customers had immeasurable value. In early September, 1987, PCS Sales announced a $35.00 across the board increase in potash prices. This surcharge was to be applied against any exposure to permanent duties; it also served the additional purpose of making the U.S. farm sector aware of potential price increases if the preliminary duties were upheld in a final Department of Commerce decision.

We were committed to return this surcharge if duties were not imposed. On January 8, 1988, a Suspension Agreement was signed by the United States Department of Commerce and the eight Canadian producers. The antidumping petition was suspended for a period of five years, and then will be terminated. The $35.00 per ton dumping surcharge was returned to our customers in the way of a credit toward future purchases. At the same time basic price increases were announced.

In the offshore market, PCS Sales had record sales in 1987 of 2.1 million tonnes through Canpotex, the offshore marketing company owned by all Saskatchewan potash producers. Canpotex had a record year for volume in 1987, selling 4.2 million tonnes. Much of this success was due to the tonnage bought by China, one of six countries that purchased a record tonnage from Canpotex in 1987. Prices for offshore sales continued their slide downward as they responded to 1986 and early 1987 domestic prices, with netbacks among the lowest in the history of PCS.

Offshore prices were stronger the second half of the year and contracts for the first half of 1988

indicated further improvements.

Although record tonnes were produced and sold in 1987, PCS Mining continued to operate at a level lower than our productive capability. With the completion of the Lanigan expansion name plate capacity is now 8.6 million tonnes. I am pleased, however, to report that in constant dollar measures, 1987 production was the lowest cost tonnage ever produced by PCS Mining. As a result we were able to report a consolidated operating income of $27.9 million, the first positive number in three years.

Every mining division showed improvement in production efficiency and cost during 1987. Production was maximized at the low cost operations in our efforts to produce at the lowest cost.

We were forced to have reduced work schedules at our Allan, Cory and Lanigan Divisions however, including some shutdowns for inventory control. The operating divisions deserve special recognition for their outstanding performance during difficult times.

Our financial problems were addressed by our owner during 1987. Crown Investments Corporation of Saskatchewan made an investment of some $662 million in PCS which was used by the Corporation to retire debt obligations. PCS ended the year with equity of $1,147 million, of which $1,142 million is investment and $5 million is retained earnings. Our December 31, 1987 balance sheet includes $138 million of long and short term debt.

Due primarily to an increase in income of $100.8 million, we had an operating income of $27.9 million, an improvement of $74.9 million over 1986. Expensed interest and taxes were $48.6 million in 1987 (compared to $56.4 million in 1986) resulting in a net loss of $20.7 million in 1987. This represents an improvement of $82.7 million over the 1986 figure. Of more significance, during the last three quarters of 1987, a net income of $2.7 million was realized.

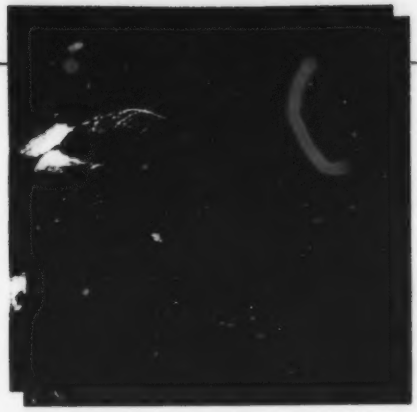
With a strong balance sheet and improving conditions in the potash business, we look to the future with optimism. This optimism is tempered by the fact that our basic problem of excess supply capability has not gone away. Continued discipline by PCS and its subsidiaries is required in order to maintain and improve our financial situation.

During 1987, PCS assumed a role as one of the leaders in the fertilizer industry. We intend to continue in this role and have accepted the concurrent responsibilities.

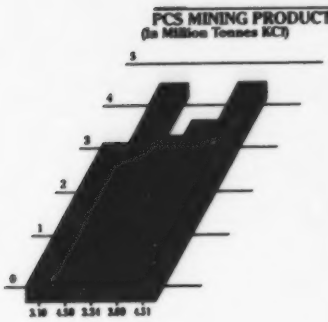
We believe there is a new maturity in the fertilizer industry which will serve us all well in 1988 and beyond.

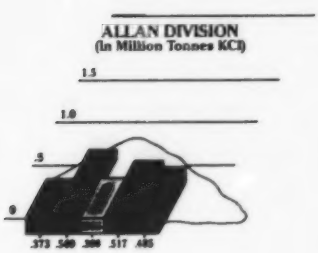
C.E. CHILDERS
President and Chief Executive Officer
Potash Corporation of Saskatchewan

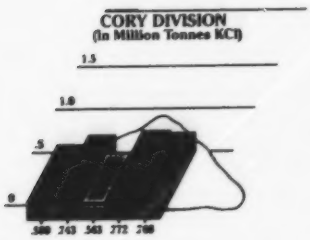
PCS Mining



Earl Gebhardt, Senior Mine Engineer, PCS Mining Lanigan Division, examines ore at rock face.







The Potash Corporation of Saskatchewan Mining Limited (PCS Mining) has five geographically distinct operations with an annual production capacity of 8.6 million tonnes of potash products per year.

In 1987, PCS Mining operations produced a record 4.5 million tonnes, up .9 million tonnes from the previous year.

Efficiency improvements in productivity registered between 15 and 20 percent at each of the Mining Divisions. Lost time injuries were down 35 percent over 1986. In all, these achievements confirm the commitment and individual contribution made by employees at the divisions to improve productivity and reduce lost time injuries.

During July and August, 1987, all divisions took an annual four week vacation shutdown. In addition, PCS Mining Allan, Cory and Lanigan Divisions also took inventory correction shutdowns at various times throughout the year.

Collective bargaining agreements were ratified during the first quarter of 1987. Bargaining agreements extend into 1989 for all PCS Mining Divisions.

Allan Division

PCS Mining, Allan Division is jointly owned, 60 percent by PCS Mining and 40 percent by Saskterra Fertilizer Limited. Production at the division in 1987 was .808 million tonnes compared to .861 million tonnes produced in 1986. PCS Mining's production share was .485 million tonnes.

The plant operated on a three shift basis with 325 employees at year end. Productivity was up 19 percent over last year and daily mill production was up by 10 percent. Lost time injuries were down over 50 percent from 1986.

PCS Mining Allan Division again won the Provincial Mine Rescue Competition. This was the eighth win for the Allan team and the Corporation congratulates all team members on their success.

Cory Division

Potassium chloride production at Cory was .768 million tonnes, compared to .772 million tonnes last year.

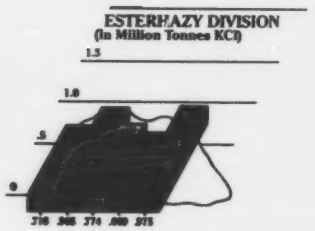
Plant modifications have allowed the Division to compact crystallized white products for specialty markets.

The Division operated on a three shift basis during the year and had an active employment of 285

PCS Mining Allan Division Mine Rescue Team won the 1987 Provincial Competition.

Back row **(left to right)**
Nick Antoniuk, John Pederson, Fred Pethick, Lawrence Hardy, Red Snider, Cliff Sawatsky
Front row **(left to right)**
Ken Hartz, Tim Poelzer, Doug Levesque

(Facing Page)
Dennis Campbell, Mill General Foreman at PCS Mining Lanigan Division, monitors the operations of the new mill complex.



employees at year end. Productivity improved by 15 percent during 1987, lost time injuries were down over 30 percent from 1986.

The Sulphate of Potash Demonstration Plant operated on a four shift basis with employment of 25 at the end of 1987. S.O.P. production was 19,657 tonnes during the year, compared to 8,171 tonnes in 1986.

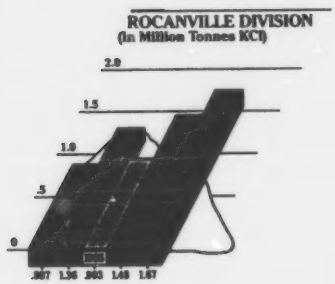
Total employment at the Division was 310 employees at year end.

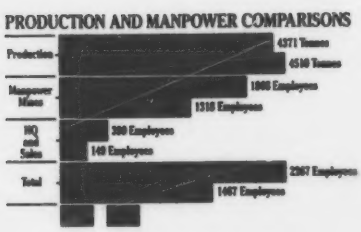
Esterhazy Division

Product from ore reserves owned by PCS Mining at Esterhazy is produced under a long term processing agreement with International Minerals and Chemical Corporation (Canada) Limited.

1987 production volumes for PCS Mining increased to .975 million tonnes from .669 million tonnes last year. A major water inflow at the K-2 mine, first discovered in December, 1985, has yet to be resolved. The water inflow, although controlled, continues to be a major problem to the Esterhazy mine. PCS Mining's share of the water inflow costs during 1987 were approximately $17 million. The mine continues to operate and continued expenditures are required to combat the inflow.

Two PCS Mining employees coordinate loading and shipping at the Esterhazy Division.





Lanigan Division

PCS Mining Lanigan Division produced .612 million tonnes KCl during 1987, compared to the production of .165 million tonnes during 1986.

Operations resumed on a three shift basis February 17, 1987 following a lengthy strike which commenced March 10, 1986.

Productivity was up 17 percent during the year. Employment at year end was 323 employees, including 24 employees assigned to Phase II construction work.

The Phase II expansion at the Lanigan Division neared completion at the end of the year. The expansion provides a state of the art operation for PCS Mining. A central underground control room regulates the four rotor boring equipment and conveyor systems. The new, highly automated mill complex increases total production capacity to more than 3 million tonnes KCl of finished product a year. On September 15, 1987, production was diverted to the new mill. The project team and operations group is to be commended on their involvement in the success of this complex. Surface facilities have also been improved to increase efficiency in the loading, rail lines and storage facilities.

Rocanville Division

In 1987, PCS Mining Rocanville Division produced record tonnage production of 1.670 million tonnes KCl. This compares to the previous production record of 1.478 million tonnes set in 1986. The Division continued to operate on a four shift continuous basis during the year.

Productivity improved 20 percent over 1986. The Division set record product shipments, including 7,891 trucks loaded during the year. Employment at PCS Mining Rocanville was 358 people at the end of 1987.

The Phase I Tailings Management area was completed during 1987; the final phase is scheduled for completion in 1988.

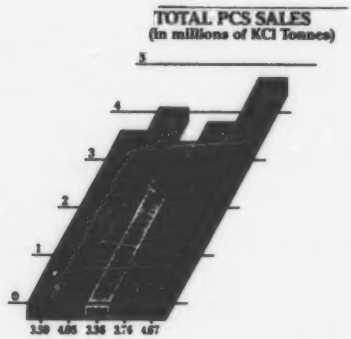
The underground concrete plug, installed during 1985 to stop the brine inflow, remained stable during the year.

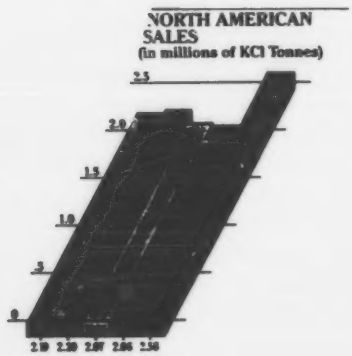
PCS Sales

Potash is loaded from PCS Mining Divisions to fill PCS Sales' orders in the North American and offshore markets.

(Facing Page, top) Dr. Kim Polizotto (centre), Agronomist, PCS Sales, provides customers with the latest in agronomic information.

(Facing Page, bottom) PCS Sales President, Bill Doyle, Gary Snyder, Manager, Co-op Sales, and Carlos Smith, Director of U.S. Sales





For the Potash Corporation of Saskatchewan Sales Limited (PCS Sales) 1987 was a year of transition. It was a year of transition from uncertainty to relative certainty in major markets, from low prices to rising prices, and from declining volumes to rising and even record volumes.

Several factors affected this transition. The world agricultural sector, while still dominated by government subsidies, showed some strength in 1987. Bilateral and multilateral discussion began with a view toward dismantling government agricultural support mechanisms. Within the United States, idled acres peaked and there are strong signs that planted acres will rise slowly over the next few years.

The major strategy for the Corporation and PCS Sales was to improve prices. This was accomplished by carefully managing inventory and by introducing two significant price increases.

During 1987, PCS Sales entered into a supply contract with Potash Company of America to provide its potash requirements for both North American and offshore markets that were previously available from PCA's mine near Saskatoon. This contract enables PCA to meet its customers' needs and allows PCS Mining to increase its capacity utilization.

Total Sales

Total sales in 1987 were 4.7 million tonnes. This is a record, surpassing the previous high of 4.4 million tonnes in 1980, and a 24 percent increase over the 3.8 million tonnes sold in 1986. Total sales by Canadian producers in 1987 were 12.8 million tonnes, an 11.4 percent increase over the 1986 sales of 11.5 million tonnes.

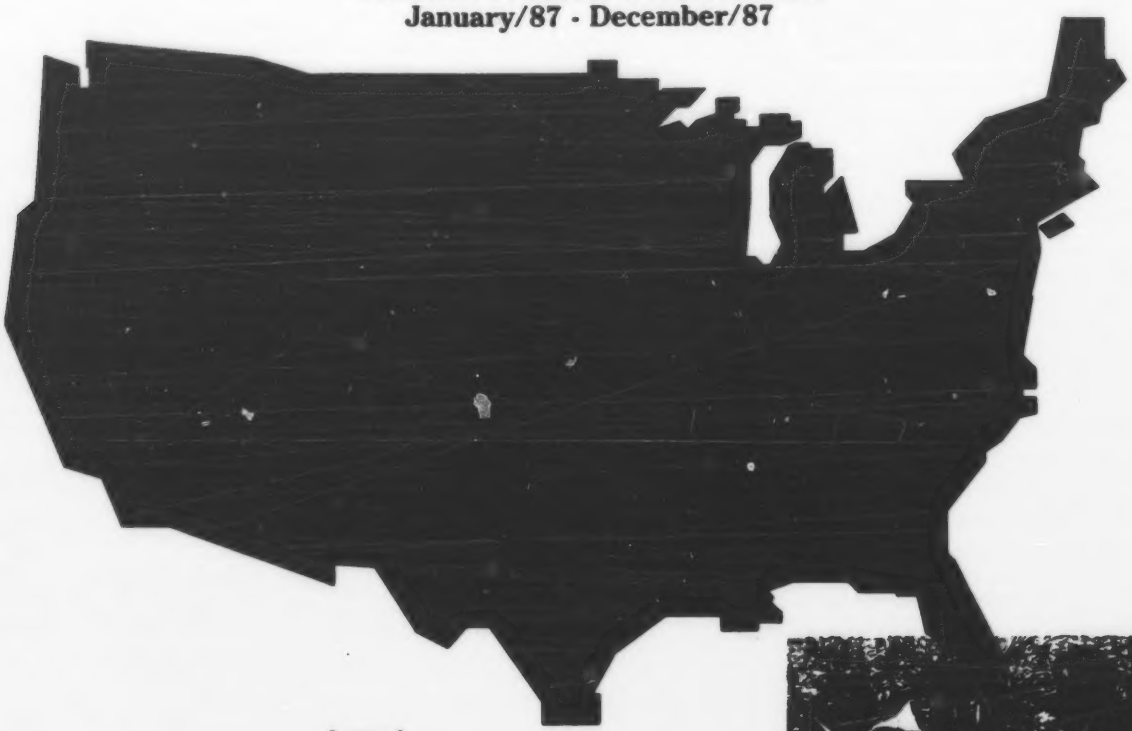
North American Sales

Our sales to North American markets were 2.6 million tonnes, including the tonnes sold to Potash Company of America. Excluding the PCA tonnes, the 1987 North American sales represent a 7.9 percent increase over the 1986 figures.

There were several factors which influenced the increase in sales to North America. Although acreage of potash consuming crops was down, the application rate increased by 4 - 6 percent. The return to more stable pricing in the industry and the prospect of higher prices in the spring of 1988 encouraged buying in the latter half of 1987.

Early indications for 1988 are somewhat encouraging. The various acreage reduction programs in

Canadian Producer Domestic Sales
January/87 - December/87



Legend

000 Short Tons	
	500.0 and over
	250.0 to 500.0
	100.0 to 250.0
	0.0 to 100.00

place in the U.S. show signs of flattening out. Although 1988 overall acreage planted will likely change little from 1987, corn and soybean planted acres could rise slightly. Sales in the fall of 1988 could benefit if 1989 brings an increase in planted acres.

Record and near-record yields in 1987 have clearly depleted the nutrient content of soils. It is likely that soil testing results will lead to recommendations for additional potash application in 1988. This would solidify sales gains resulting from additional planted acres.

Offshore Markets

Sales to offshore markets, through Canpotex Limited, reached a record 2.1 million tonnes in 1987. This surpassed the previous high in offshore sales of 2.0 million tonnes set in 1980.

Canpotex sales of 4.2 million tonnes established a new record in 1987, surpassing the previous record set in 1984. The markets in Asia and Oceania were exceptionally strong and sales records were set in China, Japan, Korea, Indonesia, Malaysia and Australia.

The outlook for potash sales in offshore markets in 1988 is positive. A sign of this strength was a January 1988 announcement of a sale of over 550,000 tonnes to China for delivery by mid-1988. This is the largest contract ever signed by Canpotex with a single customer.

Canpotex is the offshore marketing company owned by Saskatchewan potash producers. Saskterra Fertilizer Limited withdrew from Canpotex at the end of 1987 leaving six members. The Potash Corporation of Saskatchewan Sales Limited remains the largest supplier and a staunch supporter of Canpotex.

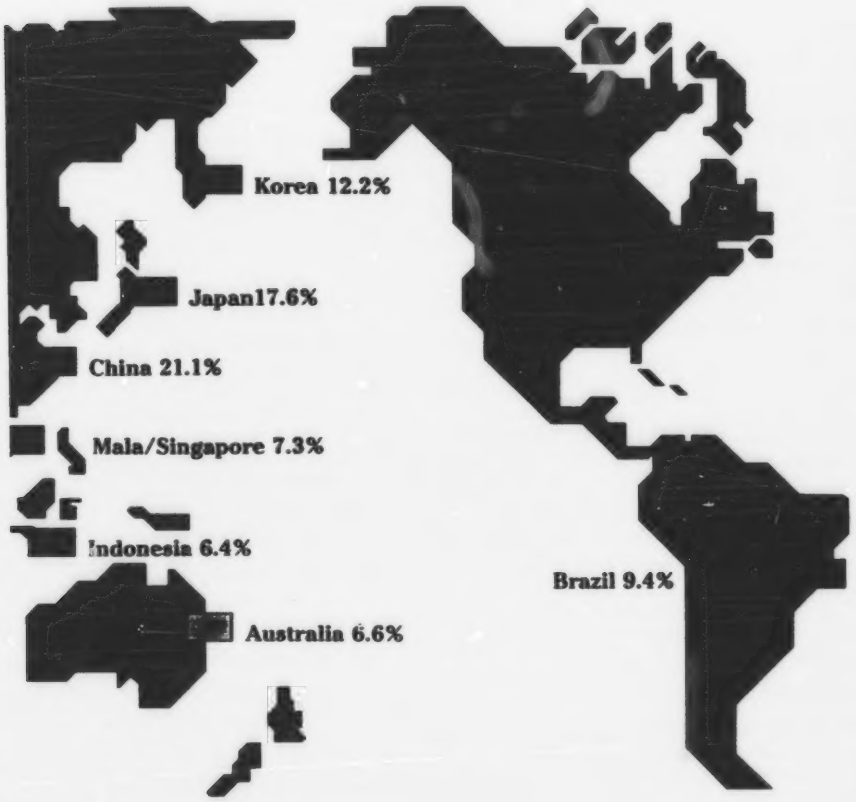
The management of Canpotex is guided by a Board of Directors comprised of executives from the member companies. Mr. W.J. Doyle and Mr. D.E. Logsdail of PCS Sales serve on the Board and PCS President Mr. C.E. Childers is currently Chairman of the Board.

Canpotex Sales

Dr. Ken Pretty, President, Potash & Phosphate Institute of Canada, presents award certificate to participant of the Sugar Cane Harvest Field Day held in Jiangxi Province, China, November 1987.

(Facing Page, top) Soybean Crops are evaluated by farmers in the Peoples Republic of China.

by Country — 1987



Neptune Bulk Terminals Limited in Vancouver handles overseas potash distribution.

Operations

At year end, there were 61 employees in PCS Sales, 26 in Chicago and various field locations and 35 in Saskatoon. The Chicago office is the focus of almost all U.S. sales activities and the Saskatoon office is the focus of Canadian and Industrial sales, supply management, sales administration, credit, transportation, technical services, market research, market services and head office liaison.

PCS Sales owns two warehouses in the U.S. — at Fort Dodge, Iowa and Burns Harbor, Indiana — which are staffed by PCS Sales employees.

PCS Sales maintains ownership of a warehouse at Vancouver Wharves, a bulk terminal in Vancouver which handles potash for Canpotex. The company, along with other Canpotex members, holds an equity position in Neptune Bulk Terminals Limited in Vancouver, a shipper-owned terminal handling potash and other bulk materials.

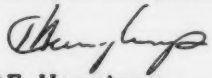
Financial Responsibility

Management is responsible to the Board of Directors for the preparation of the consolidated financial statements of the Corporation and its subsidiaries. The statements have been prepared in accordance with generally accepted accounting principles applied on a consistent basis. The financial data included elsewhere in this report is consistent with the financial statements and with the underlying information from which these financial statements were prepared.

Management has the primary responsibility for the integrity and objectivity of the financial statements. To fulfill this responsibility, the Corporation maintains appropriate systems of internal control, and policies and procedures to provide reasonable assurance that assets are safeguarded, and that the books and records reflect properly authorized transactions of the Corporation.

The Corporation's independent auditors, Deloitte Haskins and Sells, have been appointed to express an opinion as to whether these financial statements present fairly the Corporation's financial position and operating results in accordance with generally accepted accounting principles consistently applied. Their report is included below.

The Board of Directors has reviewed and approved these financial statements. To assist the Board in meeting its responsibility, it has appointed an audit committee which is composed entirely of outside directors. The committee meets periodically with management, the internal auditors and the independent auditors to review internal accounting controls, audit results and accounting principles and practices.



B.E. Humphreys,
Vice-President, Finance and Accounting

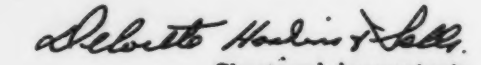
Auditors' Report

To the Members of the
Legislative Assembly of
the Province of Saskatchewan

We have examined the consolidated statement of financial position of Potash Corporation of Saskatchewan as at December 31, 1987 and the consolidated statements of income and retained earnings and of changes in cash flow for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the Corporation as at December 31, 1987 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

January 29, 1988
Saskatoon, Saskatchewan



Chartered Accountants

Five Year Review

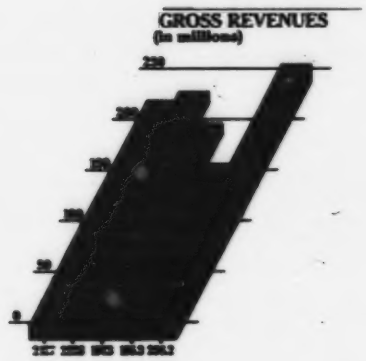
All figures are expressed in thousands unless otherwise specified.

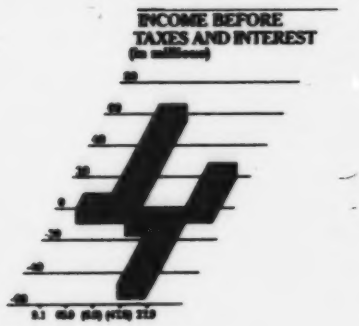
	1987	1986	1985	1984	1983
Production – KCl Tonnes					
Allan Division	485	517	388	569	373
Cory Division	768	772	563	743	599
Esterhazy Division	975	669	774	965	718
Rocanville Division	1,670	1,478	903	1,358	887
Lanigan Division	612	165	618	867	529
Total PCS Mining	4,510	3,601	3,246	4,502	3,106
Total Canadian Producers	11,913	10,980	10,882	12,703	9,719
Sales – KCl Tonnes					
North America	2,585	2,062	2,073	2,204	2,193
Offshore	2,091	1,703	1,291	1,849	1,399
Total PCS Sales	4,676	3,765	3,364	4,053	3,592
Total Canadian Producers	12,847	11,527	10,696	11,587	10,795
Financial ($)					
Gross Revenue	256,172	155,327	197,311	227,797	217,702
Income before Taxes and Interest	27,912	(47,007)	(6,880)	65,044	9,116
Provincial Taxes	12,663	13,309	10,773	17,692	10,822
Interest Expense	35,961	43,084	31,986	22,003	16,301
Net Income (Loss) before extraordinary items	(20,712)	(103,400)	(49,639)	25,349	(18,007)
Dividends declared	—	—	—	12,000	62,000
Gross Payroll & Benefits	57,174	58,367	60,668	67,071	59,780
Capital Expenditures including capitalized interest (net)	20,360	59,719	95,375	113,931	111,638
Cash Flow from Operations	27,494	(12,912)	20,048	57,160	99,910
Working Capital	74,379	(29,250)	(107,274)	33,868	(41,248)
Long Term Obligations	107,526	662,414	446,970	455,464	372,980
Shareholder's Equity	1,147,284	505,889	609,289	678,022	602,673
Return on Equity – Pretax	(1.0%)	(16.16%)	(6.04%)	6.72%	(0.08%)
– After tax	(2.5%)	(18.54%)	(7.71%)	3.96%	(2.80%)
Employees at year end (actual numbers)	1,466	1,668	1,756	1,917	1,826

1987 Quarterly Results	Q1	Q2	Q3	Q4
Sales – KCl Tonnes	1,280	1,394	880	1,122
Production – KCl Tonnes	1,193	1,263	811	1,243
Gross Revenue	60,319	82,815	53,929	59,109
Net Income (Loss) before extraordinary item	(23,427)	1,784	(3,085)	4,016
Cash Flow from Operations	(322)	7,085	52,708	(31,977)

Consolidated Statement of Financial Position

As At December 31





In Thousands

	1987	1986
Assets		
Current Assets		
Short-term deposits	$ 31,348	$ —
Accounts receivable	46,684	51,025
Inventories (Note 2)	40,715	47,043
Deposits and prepayments	15,694	20,249
	134,441	118,317
Fixed Assets (Note 3)	1,153,531	1,164,744
Deferred charges and investment (Note 4)	26,900	32,809
	$1,314,872	$1,315,870
Liabilities		
Current Liabilities		
Short-term debt		
Banks	$ 24,962	$ 24,721
Province of Saskatchewan	—	50,000
Accounts payable and accrued charges	30,101	63,289
Current portion of long-term debt	650	5,690
Current obligations under capital leases	4,349	3,867
	60,062	147,567
Long-term debt (Note 5)	7,669	558,206
Obligations under capital leases (Note 6)	99,857	104,208
	167,588	809,981
Equity		
Province of Saskatchewan investment (Note 7)	1,142,661	480,554
Retained earnings	4,623	25,335
	1,147,284	505,889
	$1,314,872	$1,315,870

Consolidated Statement of Income and Retained Earnings

For The Years Ended December 31

In Thousands

	1987	1986
Income (loss)		
Sales	$ 256.198	$ 189,657
Foreign exchange	(1.301)	(38,068)
Interest and other	1.275	3,738
	256.172	155,327
Costs and expenses		
Operating costs other than those shown below	160.089	133,779
Depreciation and amortization	35.061	33,970
Research and development	3.264	3,458
Selling, distribution and administrative	29.846	31,127
	228.260	202,334
Operating income (loss)	27.912	(47,007)
Interest expense (Note 8)	35.961	43,084
Loss before taxes	(8.049)	(90,091)
Provincial mining taxes (Note 9)	12.663	13,309
Net Loss	(20.712)	(103,400)
Retained earnings – beginning of year	25.335	128,735
Retained earnings – end of year	$ 4.623	$ 25,335

Consolidated Cash Flow Statement

For the Years Ended December 31

In Thousands

	1987	1986
Operating Activities		
Operating income (loss)	$ 27,912	$ (47,007)
Provincial mining taxes	(12,663)	(13,309)
Non-cash items – depreciation and amortization	30,210	28,267
Decrease (increase) in non-cash working capital	(17,965)	19,137
Total cash inflow (outflow) from operations	27,494	(12,912)
Financing Activities		
Long-term obligations – incurred	—	231,605
– repaid	(559,446)	(9,557)
Interest expense (Note 8)	(35,961)	(43,084)
Equity advance (Note 7)	662,107	—
Dividend paid	—	(12,000)
Net cash inflow from financing activities	66,700	166,964
Investing Activities		
Additions to – fixed assets – sustaining	3,798	2,158
– fixed assets – plant construction	16,561	57,561
Additions to (reduction of) – deferred charges	(7,272)	8,909
Net cash outflow from investing activities	13,087	68,628
Increase in cash	81,107	85,424
Short-term debt – beginning of year	(74,721)	(160,145)
Cash (short-term debt) – end of year	$ 6,386	$ (74,721)
Cash (short-term debt) consists of:		
Short-term deposits	$ 31,348	$ —
Short-term debt – banks	(24,962)	(24,721)
– Province of Saskatchewan	—	(50,000)
	$ 6,386	$ (74,721)

Notes to Consolidated Financial Statements

Note 1

Signigicant Accounting Policies

The Corporation's accounting policies are in accordance with generally accepted accounting principles. The following policies are considered to be significant:

Principles of consolidation

The consolidated financial statements include the accounts of the Corporation and the wholly owned subsidiaries:

- Potash Corporation of Saskatchewan Sales Limited (PCS Sales)
  - PCS Sales (Iowa), Inc.
  - PCS Sales (Indiana), Inc.
- Potash Corporation of Saskatchewan Mining Limited (PCS Mining)
- Potash Corporation of Saskatchewan Transport Limited (PCS Transport)

PCS Transport has a 64% interest in Canpotex Bulk Terminals Limited which is accounted for by the equity method.

Inventories

Inventories of product and raw ore are valued at the lower of average cost or net realizable value. Cost is determined using the first in. first out (FIFO) method and is based on the monthly average of mine production costs. Inventories of materials and supplies are valued at the lower of average cost or replacement cost.

Fixed Assets

Fixed assets are carried at cost. Costs of additions, betterments and renewals are capitalized.

Maintenance and repair expenditures which do not improve or extend productive life are expensed as incurred. Interest associated with major capital projects is capitalized during the construction period at the Corporation's average cost of long term debt, and is included in the total cost of the project.

Depreciation and amortization

Depreciation and amortization are provided on a basis and at rates calculated to amortize the cost of the fixed assets over their estimated useful lives, as set out below:

	Depreciation or Amortization Basis	Approximate Rate
Head Office		
Furniture, equipment and leasehold improvements	Straight-line	10%
Automotive equipment	Straight-line	20%
Mines		
All mine assets	Units of production	
Offsite Storage Facilities		
Buildings, roads and sites	Straight-line	4%
Equipment	Straight-line	8%

Research and development costs

Research costs are charged to expense as incurred.

Development costs are capitalized until a project is determined not to be technically or economically feasible and no future benefit to the Corporation exists, at which time the costs are expensed.

Deferred Charges

Issue costs of long-term obligations are amortized over the term of the related liability.

Other development costs which are capitalized are amortized over the estimated useful life of the project to which they relate.

Leases

Leases entered into are classified as either capital or operating leases. Leases that transfer substantially all of the benefits and risks of ownership of property to the Corporation are accounted for as capital leases. At the time a capital lease is entered into, an asset is recorded together with the related long-term obligation. Equipment acquired under capital leases is being depreciated on the same basis as other fixed assets. Gains or losses resulting from sale-leaseback transactions are deducted from the cost of equipment under capital lease and amortized on the same basis as the related asset. Rental payments under operating leases are charged to expense as incurred.

Note 2

Inventories

In Thousands

	1987	1986
Product	$ 16,041	$ 22,202
Raw ore	1,688	2,138
Materials and supplies	22,986	22,703
	$ 40,715	$ 47,043

Note 3

Fixed Assets

In Thousands

	1987	1986
Land	$ 19,737	$ 19,633
Buildings and improvements	360,343	206,583
Machinery and equipment	811,303	555,250
Plant under construction	10,840	406,911
Deferred exploration and development costs	122,463	115,712
Equipment under capital lease	107,835	108,072
	1,432,521	1,412,161
Less: Accumulated depreciation and amortization	278,990	247,417
	$1,153,531	$1,164,744

Note 4

Deferred Charges and Investment

In Thousands

	1987	1986
Deferred charges – net		
Issue costs – long-term obligations	$ 615	$ 7,243
System development and other	92	158
Preproduction costs	12,627	3,999
Research studies	7,395	4,979
Esterhazy brine leak costs	5,206	4,723
	25,935	21,102
Unrealized foreign exchange losses	—	10,742
	25,935	31,844
Investment, at equity	965	965
	$ 26,900	$ 32,809

Note 5

Long-Term Debt

In Thousands

	1987	1986
Province of Saskatchewan	$ —	$ 549,370
Saskatchewan Heritage Fund	—	5,000
Webster County, Iowa		
■ Matures December 1, 1996, with interest at 13% per annum payable semi-annually (US $3,900)	5,069	5,384
City of Portage, Indiana		
■ Matures in five equal annual installments on March 1, 1988 to 1992 inclusive with interest at 12.25% per annum, payable quarterly secured by assets of PCS Sales (Indiana), Inc. (US $2,500)	3,250	4,142
	8,319	563,896
Less amounts due within one year	650	5,690
	$ 7,669	$ 558,206

Principal payments due on long-term debt for the next five years are as follows:

(thousands) 1988 – $650; 1989 – $650; 1990 – $650; 1991 – $650; 1992 – $650

Note 6

Lease Commitments

The Corporation has long-term lease agreements, the longest of which expires in 2005. Future minimum lease payments under these capital and operating leases will be approximately as follows:

In Thousands

		Operating	Capital
Years ending December 31	1988	$ 10,445	$ 16,859
	1989	8,590	16,859
	1990	5,739	16,859
	1991	3,891	16,859
	1992	3,111	16,859
	Subsequent years	13,758	109,005
			193,300
Less – amount representing interest			89,094
Present value of minimum capital lease payments			104,206
Current obligation			4,349
Long-term portion			$ 99,857

Note 7

Province of Saskatchewan Investment

In Thousands

	1987	1986
Saskatchewan Heritage Fund	$ 418,554	$ 418,554
Crown Investments Corporation of Saskatchewan	724,107	62,000
	$1,142,661	$ 480,554

Note 8

Interest Expense

In Thousands

	1987	1986
Interest on		
– Long-term debt	$ 31,637	$ 60,117
– Short-term debt	10,404	7,612
– Obligations under capital lease	12,929	13,573
	54,970	81,302
Less capitalized interest	19,009	38,218
	$ 35,961	$ 43,084

Note 9

Income Taxes

By virtue of the fact that the Corporation is wholly owned by the Province of Saskatchewan, neither it nor its wholly owned subsidiaries are subject to Federal or Provincial income taxes in Canada. Certain income and assets of its subsidiaries and affiliates are subject to Federal and State taxes in the United States.

Note 10

Contractual Obligations and Commitments

PCS Sales is a shareholder in Canpotex Limited. an offshore marketing company. Should any operating losses be incurred by Canpotex Limited, they will be proportionately shared by its shareholders. PCS Sales is also a guarantor of the performance by Canpotex Limited of certain railcar leases.

PCS Sales and PCS Mining have guaranteed a mortgage loan not to exceed $4,300,000 for warehousing facilities in Danville, Illinois.

Note 11

Directors and Officers

The aggregate 1987 remuneration to directors and senior officers amounted to $826,341 (1986 – $1,066,620).

Note 12

Related Party Transactions

Included in these consolidated financial statements are expense amounts resulting from routine operating transactions conducted at prevailing market prices with various Saskatchewan Crown controlled departments, agencies and corporations with which the Corporation is related. Account balances resulting from these transactions are included in the Consolidated Statement of Financial Position and are settled on normal trade terms.

Other amounts due to or from related parties and the terms of settlement are described separately in the consolidated financial statements and the notes thereto.

Note 13

Pensions

Substantially all employees of the Corporation are participants in either a defined contribution or a defined benefit based pension plan. Based on the latest actuarial valuation of the defined benefit pension plan conducted as at December 31, 1986 and updated as at December 31, 1987, accrued pension benefits were $3,131,000 and the market values of the assets of the plans were $3,103,000.

Note 14

Comparative Figures

Certain of the prior year's comparative figures have been reclassified to conform with the current year's presentation.

Board of Directors
(at March 31, 1988)

Paul J. Schoenhals, Saskatoon
Chairman of the Board

Honourable J. Gary Lane, Q.C.
Minister of Finance
Province of Saskatchewan
and Minister-in-Charge of PCS

Charles E. Childers, Saskatoon
President & C.E.O., PCS

William Gibson, Regina
President, Crown Management Board

Louis Gierstorfer, Coleville
President,
Pirate Drilling Limited

Dallas Howe, Saskatoon
President, BDM Systems Ltd.

Joe Helgason, Foam Lake
Retired Farmer

Darlene J. Hincks, Regina
Alderwoman, City of Regina

Roger Kaeding, Churchbridge
Farmer

Lloyd Martin, Ituna
Partner, Parkland Distributors Inc.,
and C.B. Farm Ltd.

John Remai, Saskatoon
President & C.E.O.
Remai Investment Co. Ltd.

John D. Ritchie, Regina
Vice President,
Wood Gundy Limited

Dr. Andy Schmitz, Saskatoon
Professor,
University of Saskatchewan

Doris Young, Meadow Lake
Manager

Management
(at March 31, 1988)

Charles E. Childers
President & Chief Executive Officer

Keith E. Barton
Vice President, General Counsel and
Secretary

John Gugulyn
Vice President, Corporate Affairs
and Human Resources

Barry E. Humphreys
Vice President, Finance and
Accounting

Rick Lacroix
Vice President, Technical Services

Peter Braun
Director of Internal Audit

Potash Corporation of Saskatchewan Mining Limited

James J. Bubnick
President, PCS Mining

Jim Johnstone
General Manager, Allan Division

Wilbert Donohue
General Manager, Cory Division

Dale Jackson
General Manager, Lanigan Division

Garth Moore
General Manager, Rocanville Division

Potash Corporation of Saskatchewan Sales Limited

William J. Doyle
President, PCS Sales

Douglas E. Logsdail
Executive Vice President

Jack O. Ellis
Senior Director, Product Management

William G. Irvine
Director, Transportation and Distribution

Carlos Smith
Director of U.S. Sales

The Head Offices for the Potash Corporation of Saskatchewan, PCS Sales and PCS Mining are located at:

PCS Tower

Suite 500
122 - 1st Avenue South
Saskatoon, Saskatchewan
S7K 7G3
Phone: (306) 933-8500
Wats: (800) 667-3930
Telex: 074-2699

PCS Sales Chicago Office:

Suite 120
3030 Salt Creek Lane
Arlington Heights, Illinois
60005
Phone: (312) 392-2200
Wats: (800) 241-6908
TWX: (910) 221-2912
Telex: 392-3107

PCS Mining Divisions:

Allan Division

Allan, Saskatchewan
S0K 0C0
Phone: (306) 257-3312
Telex: 074-2634

Cory Division

P.O. Box 1320
Saskatoon, Saskatchewan
S7K 2N8
Phone: (306) 382-0525
Telex: 074-2682

Esterhazy Division

P.O. Box 1060
Esterhazy, Saskatchewan
S0A 0X0
Phone: (306) 745-6601
Telex: 075-87856

Lanigan Division:

P.O. Box 3100
Lanigan, Saskatchewan
S0K 2M0
Phone: (306) 365-2030
Telex: 074-2318

Rocanville Division

Rocanville, Saskatchewan
S0A 3L0
Phone: (306) 645-2870
Telex: 971-2342